Financial Literacy Program to Strengthen Economic Resilience for MSMEs In Pimpinan Cabang Istimewa Aisyiyah (PCIA) Malaysia

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Abstract. The development of investment instruments in real assets and financial assets has demanded MSMEs to acquire information for their decisions to be effective. However, there are still many obstacles, such as fraudulent investment practices due to financial illiterate. Given its importance for economic well-being, training on financial literacy along with entrepreneurship skills is needed to strengthen economic resilience for MSMEs. This program was done in collaboration with PCIA Aisyiyah Malaysia. In executing the program, we develop stages: preparation, implementation, and monitoring and evaluation. We found that participants perceive that they need the right support system, consistency, and confidence to be successful entrepreneurs. In terms of financial management, small businesses lack knowledge of cash management, overinvest, and experience difficulties in seeking external funding. In this program, Sharia finance was also introduced, and business practice according to Islamic law was also encouraged.

Keywords: MSMEs, Financial literacy, economic value

1 Introduction

In the digital era, where there is an increase and development in the ease of investing in real assets and financial assets, information that is useful for MSMEs in improving economic welfare through investment is increasingly becoming a demand for them [1]. Especially for investments in financial assets, phenomena in the practice indicate that almost all elements of society can access and participate in investment activities. However, the hustle and bustle in financial investment does not always bring benefits to economic prosperity. There are still many obstacles that often arise in the industry, for example, such as fraudulent investments and lack of financial literacy [2], [3]. This is the background to the importance of programs that aim to educate and provide information about financial investment. No less important, the effectiveness of the program, both implemented by the government and the private sector, is a hot issue always to be studied and discussed in order to obtain optimal benefits (e.g., [4]).

The Organization for Economic Cooperation and Development or OECD defines financial literacy as knowledge and understanding of financial concepts and risks, along with the skills, motivation and confidence to apply this knowledge and understanding in order to make effective financial decisions, improve financial well-being, and participate in the economic field [5]. The implications of financial literacy for economic well-being, both micro (individual) and macro (country economy), have been shown to have a central role [6]–[11]. Academics show that knowledge (literacy) regarding finance is an important

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factor in creating individual financial security as a component of individual welfare [6]–[8].

Based on the reasons above, we would like to create a community service program concerning "Financial Literacy to Strengthen Economic Resilience for Micro, Small, and Medium Enterprises (MSMEs) in Pimpinan Cabang Istimewa Aisyiyah (PCIA) Malaysia.

The members of PCIA Malaysia are mostly women who have peculiar jobs or are entrepreneurs. From the observation, around 30% of the members work as chefs, some of them having their own small restaurants. Other 30% work in peculiar jobs, notably house assistant or cleaner. 15% of them are household mothers. Most of these jobs are not skilled jobs, so it is highly likely that they are still illiterate in managing financials. Also, as wives, they normally take care of all household work and do not have a formal career. They have no regular income, depending on their husbands. This has some implications. First, they become useless when they can actually contribute something more than a household mother to their family. Moreover, they could actively be involved in communities and make contributions. Second, they become vulnerable to any significant change in their life, which possibly makes them powerless and unable to stand on their own feet. Thus, it is important to make them literate in finance so they could be more useful as women.

Related Issues in MSME Development

Micro, Small, and Medium Enterprises (MSMEs) make up the largest portion of enterprises in almost every country and are regarded as a vital part of national income. They contribute to prospering the economy, providing job opportunities, and reducing the wealth gap [5]. It shows that MSMEs are considered the heartbeats of the economy in almost all nations. Thus, it draws much attention to creating programs or environments that support their development.

Figure 1. Enterprises by size, total business economy (Percentage of all enterprises, 2013, or latest available year).

Many MSMEs operate in the informal business sector. They are usually less knowledgeable and structured [5]. This condition might hamper their development [12]–[14]. In terms of financial knowledge, they practice very basic of it, and it does not optimize the business model. For example, one of the very problems of MSMEs is the access to finance [11]. Various programs are created to open access to MSMEs, but sometimes, they cannot reach the level governments expect to get by giving the policy. It encourages all parties to think about how to solve this very common problem that has been arising in MSMEs.
Figure 2. Persons employed by enterprise size, total business economy

Lack of financial access faced by MSMEs sometimes arises not only because of lower financial inclusion, but is often caused by the lack of knowledge on the alternative instruments [15], [16]. MSMEs can use many instruments to finance their business. However, MSMEs only seek external financing from traditional bank lending, which sometimes does not grant them money due to administrative or collateral problems. This becomes a problem due to the fact that they could actually find another source of financing other than a bank. The limited knowledge and the awareness of alternative sources might be the factors why this happens. The second factor is that they may be reluctant to try something new in the way to finance their business. People are generally reluctant to accept a change, and so do MSMEs owners. They will tend to reject any new method that is proposed to them. It becomes our task to open their mind, to say the possibility, and to show them that this will be helpful for them to develop their business.

Another problem is knowledge, skills, and self-confidence [12]–[14]. It is generally agreed that financial access has slowed down the development of MSMEs, but the elements of knowledge, skills, and confidence seem very important for them to possess. To be successful entrepreneurs, they have to master skills and business know-how. Training on a set of entrepreneurial skills is proven to be effective in creating healthy businesses and optimizing their business operations. Less skilled and knowledgeable entrepreneurs cannot be neglected because it has been a barrier for MSMEs in some countries.

MSMEs require a set of skills, both general and specific to the industry. It includes the skill to negotiate and operate their business effectively, to manage and organize people, and to be competitive and adaptive in a volatile environment. This set of skills is highly required not only to survive the competition but also to sustain the business further. A study found that growing and mature enterprises tend to lack management skills and business acumen [17].

The last problem is insufficient education on finance [11]. Literature has been stated numerous times about the importance of financial literacy on the development of economic well-being [6]–[10]. Unfortunately, many have undermined the value of financial literacy, and often, they are too soon to judge that they are proficient enough in finance. In fact, it still becomes a hot issue in MSMEs conversation, which implicitly says that there is still a lot of room to be improved in terms of financial literacy.

2 Methodology

The method used in this financial literacy program involved several stages. These stages were proposed to achieve the goals of this program. It included preparation, implementation, monitoring, and evaluation stages.
2.1 Preparation

In this stage, we start to build communication with community partners. We do due diligence and match what we have to what they need. It should be done because we have to ensure that we have the same goals for what we want to learn. We will conduct some interviews with important figures that represent the community. This activity will ensure the achievement of the goals. After matching, we plan our activities in the community service program. This plan is built based on the result of observation in the matching stage previously. The preparation also includes forming a team, making schedules, determining the training format, and preparing equipment and materials.

2.2 Implementation

In the implementation stage, we execute the programs that have been designed to achieve the goal of the community service programs. We arrange the training starting from:

a. Training on developing entrepreneurial and managerial skills and mental model

This training is intended to build the general skills that an entrepreneur should have. It also sheds light on the right mental and spirit of successful entrepreneurs. Participants will be motivated and encouraged to develop a habit that will prosper the values asserted in this training.

b. Training in financial planning

Financial is very important to the success of a business. By developing and executing well-planned finance, a business could grow more efficiently, indicated by their highest possible profit or the lowest possible cost. An incorrect financial plan could lead a business into loss or even bankruptcy. The training on financial planning will discuss how to better plan business finance, including when to seek external funding, invest in another business, and expand the business.

c. Training on financial literacy

Training on financial literacy will emphasize the aspects of financial knowledge that an entrepreneur should have. It will try to open participants’ minds on the way to finding external funding. It will encourage participants to seek an alternative source of funding other than traditional bank lending. In addition, this training will also provide participants with information on investment instruments that they may put their money on. It is important because their cash management may not be so effective that they often lose the economic value of their money.

2.3 Monitoring and evaluation

Monitoring and evaluation are carried out to see whether the implementation is run according to plan. If anything happens out of plan, we can act responsively to make sure that this will not fail the program. Evaluation is to be undertaken after the program. The evaluation will be discussed much on the report in order to give feedback and consideration for future community service programs.

3 Results and Discussion

3.1 Intervention through training

As mentioned before, training was chosen as a method to provide solutions to problems that often arise in MSMEs. There are three main training in this financial literacy program:

a. Training on developing entrepreneurial and managerial skills and mental model

In this training, participants are expected to improve their entrepreneurial skills, managerial skills, and knowledge of the right mental and spirit to be an entrepreneur. It also sheds light
on the right mental and spirit of successful entrepreneurs. Participants will be motivated and encouraged to develop a habit that will prosper the values asserted in this training.

From our observation during training, participants seemed to have motivation to participate in the training. They were active in the discussion by asking questions. One frequently asked question is about “how to stay motivated even in difficult times.” Another question is about “how to develop the right attitude to be a successful entrepreneur.” From the discussion, we could capture some insights. First, they need the right supporting system to be brave to take a risk to start a new enterprise or way of doing business. It seems that they are still much dependent on others to initiate brave steps. The second thing is that they are difficult to be consistent in executing routines. To be a successful entrepreneur it needs a rigorous plan and implementation. The consistency in implementing the plan is the one that they found difficult to achieve. The last is a lack of confidence. The main factor is due to lack of mentoring and networking.

b. Training in financial planning

Training on financial planning helped participants to improve their knowledge and skills in financial planning for small businesses. Financial is very important to the success of a business. By developing and executing well-planned finance, a business could grow more efficiently, indicated by their highest possible profit or the lowest possible cost. An incorrect financial plan could lead a business into a loss or even bankruptcy. The training on financial planning will discuss how to better plan business finance, including when to seek external funding, invest in another business, and expand the business.

We found that most of the participants had implemented simple financial planning. It is effective but not efficient. It neglected some basic concepts of financial management. For example, in calculating cost, labor cost was not included because they run their own business. They used their time to manage their business but were never considered to pay themselves. This was the basic mistake they often made when managing finance. Second, cash management was also a concern for small businesses. Either they overinvest or underinvest cash in their business. Overinvestment becomes a common problem for MSMEs. The lack of knowledge of cash management leads them to forgo some possible additional profit. They do not know what opportunity cost is. Underinvestment occurs when they do not forecast their sales very well. A new business should have sufficient cash to buffer risk. If running out of cash, it could go into bankruptcy. Knowledge of this should be instilled in small business owners. The last common problem was the barrier to seeking external funding. They had this same problem over time because they did not know how to manage businesses in order to get funding from financial institutions.

c. Training on financial literacy

Training on financial literacy will emphasize the aspects of financial knowledge that an entrepreneur should have. It will try to open their mind on the way to find external funding. It will encourage participants to seek an alternative source of funding other than traditional bank lending. In addition, this training will also provide participants with information on investment instruments that they may put their money on. It is important because their cash management may not be so effective that they often lose the economic value of their money.

One interesting discussion was about Sharia finance. Literacy on Sharia finance was one of the main goals of this program. We introduce Sharia finance, both funding and investment instruments. We explained the basic concept of sharia finance, riba, and gharar. We encouraged them to do business practice according to Islamic law. Some sharia investment products were also proposed, including sharia stocks that could be used as an instrument to manage cash effectively and efficiently.

3.2 Monitoring and Evaluation
Following the training, we have some valuable feedback that may be useful to design a similar program. Here are some feedbacks from participants:

1. The need to have a more holistic program
   One of the important feedback is to have a program designed to be delivered holistically. It means that it is not a one-meeting program. Rather, it is like a series of meetings discussing some topics that are relevant to business management.

2. Pocket Book
   Participants think that a pocketbook comprising short tips and explanations on financial planning might be very useful for them. This pocketbook might also contain worksheets for financial planning.

3. Video Tutorial
   To encourage self-learning, participants request video tutorials on financial planning and management. It also helps them remember what has been taught in the program.

From the feedback, we plan to fulfil one of them. That is, we plan to create an online program consisting of a series of meetings on important topics in business management. We are experienced in designing this kind of program because FEB UMP already has an informal business school for Aisyiyah Entrepreneurs called “Sekolah Wirausaha Aisyiyah.”

4 Conclusion

The community service program was successfully held in Malaysia. Collaborating with PCIA Malaysia, we invited Aisyiyah entrepreneurs to attend our training programs. It was planned to have three main sessions, discussing three targeted topics that were mentioned in the proposal. Overall, the event was run well. The participants were really encouraged to follow the program. They were actively involved in the discussion by asking some questions. This event was not only attended by PCIA members but also by PCIM members. It showed that they showed enthusiasm for the event. We also received some feedback from participants on how to conduct this kind of event in the future. They also highlighted some important topics they need to learn to advance their business.

We found some interesting insights and valuable feedback to develop a better program to help small businesses flourish. In terms of the entrepreneurship mental and spirit model, the idea of having the right attitude and developing routines is encouraged. It should be the main agenda in every entrepreneurship training agenda. In terms of financial planning and literacy, issues in cash management are still interesting to be discussed. In addition, Sharia finance should be more frequent promoted among small business owners because we believe it is the best solution for reducing economic disparity.

References


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